

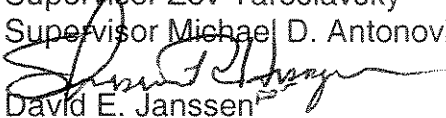


County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

June 2, 2004

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich  
From:   
David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

**SACRAMENTO UPDATE**

**Budget Conference Committee Begins**

As expected, the Budget Conference Committee began its deliberations on June 2, 2004 to address the differences between the Senate and Assembly versions of the Budget. In anticipation of the Conference Committee deliberations, the Legislative Analyst's Office (LAO) released an analysis of the major differences in the Senate and Assembly versions of the budget in comparison to the Governor's May Revision. A copy of the LAO's analysis is attached.

While the May Revision includes a \$997 million reserve, the LAO indicates that the Senate version of the FY 2004-05 budget spends the entire reserve plus \$394 million, and is out of balance by \$1.4 billion in comparison to the May Revision. The difference is primarily due to restorations of the May Revision's proposed reductions in social services and employee compensation, various augmentations to higher education, and extending and/or increasing loans from various special funds. The LAO indicates the Assembly version also spends the entire reserve plus \$744 million, and is out of balance by \$1.7 billion resulting from the same restorations included in the Senate version. In addition, the Assembly rejected the Administration's proposed pension obligation bonds and punitive damage awards, and increased the use of economic recovery bonds by \$1 billion.

Many cuts to county programs and services proposed by Governor Schwarzenegger in either January or May were restored by Budget Subcommittees in late May. Most of these actions were not offset by reductions elsewhere. Therefore, there could be

Each Supervisor  
June 2, 2004  
Page 2

significant changes to the Budget in the Conference Committee (and in Big Five meetings) in order to ensure that the State Budget meets the Proposition 58 balanced budget requirement. Some of the Conference Committee items of County interest include:

- TANF Probation: the Senate and Assembly both restored General Funds for juvenile probation previously funded with TANF, but the Senate added these funds to the Board of Corrections;
- Statewide Fingerprint Imaging System (SFIS): the Assembly adopted language to eliminate the SFIS funding and the requirement that CalWORKs and Food Stamps applicants be fingerprinted, but the Senate did not;
- Child Support Penalty: the Senate rejected language that would require counties to pay 25 percent of the federal penalty, but the Assembly did not;
- Food Stamp Eligibility: the Assembly adopted language allowing persons with felony convictions for possession or use of drugs to qualify for Food Stamp benefits, but the Senate did not;
- Booking Fee Subventions: the Assembly funded this item with \$20 million and the Senate with \$1,000 in lieu of the regular continuous appropriation of about \$38 million; and
- Juvenile Justice Reform: the Senate required the Board of Corrections to submit a detailed plan for how \$500,000 will be used to develop a Juvenile Justice/California Youth Authority reform, but the Assembly did not.

We will continue to keep you advised.

DEJ:GK  
MAL:JF:EW:ib

#### Attachment

c: Executive Officer, Board of Supervisors  
County Counsel  
Local 660  
All Department Heads  
Legislative Strategist  
Coalition of County Unions  
California Contract Cities Association  
Independent Cities Association  
League of California Cities  
City Managers Associations

May 28, 2004



## 2004-05 General Fund Condition— May Revision and Assembly

(In Millions)

	Governor's Budget (May Revision)	Assembly Version	Difference
Prior-year fund balance	\$2,816	\$2,914	\$98
Revenues and transfers	76,688	75,991	-697
Total resources available	\$79,504	\$78,906	-\$598
Expenditures	77,578	78,721	1,143
Ending fund balance	\$1,926	\$185	-\$1,741
Encumbrances	929	929	—
<b>Reserve</b>	<b>\$997</b>	<b>-\$744</b>	<b>-\$1,741</b>



**Reserve.** The Assembly version results in a 2004-05 year-end deficit of \$744 million, which is \$1.7 billion less than the \$997 million positive reserve included in the May Revision.



**Revenues.** The Assembly version assumes total revenues and transfers of \$76 billion in 2004-05, which is \$697 million less than the May Revision. Most of the difference is related to the revenue-side impacts of the Assembly's rejection of the administration's proposed pension obligation bond.



**Expenditures.** The Assembly's General Fund expenditure total is \$78.7 billion in 2004-05, which is \$1.1 billion more than the May Revision. The net increase is related to the restoration of the administration's proposed reductions in social services and employee compensation, and various increases in higher education. In addition, the Assembly rejected the proposals related to pension obligation bonds and punitive damage awards. The Assembly version assumes a \$1 billion increase in the use of economic recovery bonds.



## 2004-05 General Fund Condition— May Revision and Senate

(In Millions)

	Governor's Budget (May Revision)	Senate Version	Difference
Prior-year fund balance	\$2,816	\$2,861	\$45
Revenues and transfers	76,688	76,761	73
Total resources available	\$79,504	\$79,622	\$118
Expenditures	77,578	79,088	1,510
Ending fund balance	\$1,926	\$534	-\$1,392
Encumbrances	929	929	—
<b>Reserve</b>	<b>\$997</b>	<b>-\$394</b>	<b>-\$1,392</b>

- ☒ **Reserve.** The Senate version results in a 2004-05 year-end deficit of \$394 million, which is \$1.4 billion less than the \$997 million positive reserve total in the May Revision.
- ☒ **Revenues.** The Senate version assumes total revenues and transfers of \$76.8 billion in 2004-05, which is \$73 million more than the May Revision. The difference is largely related to Senate actions extending and/or increasing loans from various special funds.
- ☒ **Expenditures.** The Senate's expenditure total is \$79.1 billion, which is \$1.5 billion more than the May Revision. The increase is largely related to restorations of the May Revision's proposed reductions in social services and employee compensation and various augmentations to higher education.



## Major Differences From May Revision

(In Millions)

Program Area	Senate		Assembly	
	Amount <sup>a</sup>	Description	Amount <sup>a</sup>	Description
Higher Education	\$603	<ul style="list-style-type: none"> <li>Reduced fee increases, provided increases for inflation and enrollment.</li> <li>Added funds for outreach and student aid.</li> </ul>	\$580	<ul style="list-style-type: none"> <li>Reduced fee increases, provided increases for inflation and enrollment.</li> <li>Added funds for outreach and student aid.</li> </ul>
Social Services	380	<ul style="list-style-type: none"> <li>Restored grant reduction and COLA suspensions.</li> <li>Added CalWORKs funds for employment services.</li> <li>Rejected wage reduction for IHSS.</li> <li>Recognized federal authorization to defer child support automation penalty until 2005-06.</li> </ul>	557	<ul style="list-style-type: none"> <li>Restored grant reduction and COLA suspensions.</li> <li>Added CalWORKs funds for employment services.</li> <li>Replaced TANF funding for juvenile probation with General Fund (Senate added these funds to Board of Corrections).</li> <li>Rejected wage reduction for IHSS.</li> <li>Recognized federal authorization to defer child support automation penalty until 2005-06.</li> </ul>
Employee Compensation	464	<ul style="list-style-type: none"> <li>Rejected May Revision savings proposal.</li> </ul>	464	<ul style="list-style-type: none"> <li>Rejected May Revision savings proposal.</li> </ul>
Youth and Adult Corrections	14	<ul style="list-style-type: none"> <li>Adopted most non-compensation related May Revision savings.</li> <li>Adopted additional savings of \$128 million related to changes in sentencing law.</li> <li>Replaced TANF funding for juvenile probation with General Fund.</li> </ul>	-261	<ul style="list-style-type: none"> <li>Rejected various May Revision proposals.</li> <li>Adopted unallocated reduction of \$477 million.</li> </ul>
Trial Court Funding	10	<ul style="list-style-type: none"> <li>Adopted May Revision proposed \$99 million augmentation.</li> </ul>	-92	<ul style="list-style-type: none"> <li>Rejected May Revision proposed augmentation for Trial Court Funding.</li> </ul>
Punitive Damages	—	<ul style="list-style-type: none"> <li>Accepted May Revision proposal.</li> </ul>	450	<ul style="list-style-type: none"> <li>Rejected May Revision proposal.</li> </ul>

*Continued*

<sup>a</sup> Total difference by program area from May Revision (Schedule 9).



## Major Differences From May Revision *(Continued)*

*(In Millions)*

Program Area	Senate		Assembly	
	Amount <sup>a</sup>	Description	Amount <sup>a</sup>	Description
K-12 Education	-\$7	<ul style="list-style-type: none"> <li>• Same level of Proposition 98 funding as May Revision.</li> <li>• Rejected May Revision proposals related to categorical funding, child care reform, and equalization.</li> </ul>	\$44	<ul style="list-style-type: none"> <li>• Same level of Proposition 98 funding as May Revision.</li> <li>• Rejected May Revision proposals related to categorical funding, and child care reform.</li> <li>• Added funding for universal preschool.</li> </ul>
Health	-41	<ul style="list-style-type: none"> <li>• Modest changes.</li> </ul>	28	<ul style="list-style-type: none"> <li>• Modest changes.</li> </ul>
Pension Obligation Bonds	—	<ul style="list-style-type: none"> <li>• Accepted administration proposal.</li> </ul>	353	<ul style="list-style-type: none"> <li>• Rejected administration proposal, replaced with \$1 billion in additional economic recovery bond proceeds (see revenues for additional impact).</li> </ul>
Economic Recovery Bonds	—	<ul style="list-style-type: none"> <li>• Accepted May Revision proposal.</li> </ul>	-1000	<ul style="list-style-type: none"> <li>• Increased size of bond by \$1 billion.</li> <li>• Proceeds used to offset GF expenses in 2004-05.</li> </ul>
2004-05 Revenues and Transfers	73	<ul style="list-style-type: none"> <li>• Additional loans and transfers.</li> </ul>	-692	<ul style="list-style-type: none"> <li>• Rejected pension bond (-\$576 million).</li> <li>• Reduced child support penalties from counties (per federal authorization—see Social Services).</li> </ul>

<sup>a</sup> Total difference by program area from May Revision (Schedule 9).